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Michigan targets SUTA dumping and employers who try to avoid their unemployment taxes

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Michigan's unemployment insurance program is starting to crack down on employers that are trying to reduce their high unemployment rates by running sophisticated shell games.

Although there are different ways of playing the game, the basic idea is to transfer payroll out of an existing company or organization to a new or different organization solely or primarily for the purpose of reducing unemployment taxes.

One way to do this is to set up a shell company and then transfer some or the company's entire payroll to the new business, which has a low unemployment tax rate. While there is no change in ownership, management or business activity, the employer is able to "dump" the old high tax rate and take on the lower "new" business tax rate.

In another version, a high tax rate employer will simply buy a business with a low unemployment tax rate. The new owner transfers his payroll to the newly acquired business and pays the lower tax rate earned by the small employer.

These tax avoidance practices are called SUTA (state unemployment tax act) dumping and are costing Michigan's unemployment trust fund between \$62 and \$95 million annually.

Although the practice involves a small percentage of employers, all employers are impacted because the "escaped responsibility for benefits paid" ends up with the rest of Michigan's employers.

The problem has gained national attention. The President's budget labeled SUTA dumping as a key integrity issue in the U.S. Department of Labor's budget, and Secretary Chao proposed legislation to Congress, requiring states to crack down on the practice. Amid growing concerns that this problem was more serious than originally thought and with ongoing discoveries of other "tax avoidance" fraud schemes in corporate America, Congress took the unusual step of discharging committees and passing this new law, which the president signed in August.

SUTA dumping is a number one priority for Michigan's Unemployment Insurance Agency (UIA). UIA has established a special unit in its Tax Office and is hiring staff to investigate the issue, to identify those who are engaging in the practice

and to recommend changes in Michigan's UI law that will help the state in combating the problem.

The agency started focusing on SUTA dumping after successfully eliminating a backlog of regular and disputed unemployment insurance claims that totaled over 250,000 at one point. The backlogged claims began in late 2002, when the agency lost 40 percent of its staff to early retirement and was initially prevented from hiring an adequate number of replacement staff. At the same time, the previous administration decided to close all of the agency's branch offices that customers had used for decades and move all remaining staff to three call centers. Unfortunately, the technology was neither working nor near ready. An emergency claims-by-mail system was rushed into place, creating more confusion and errors.

In addition to resolving the claims backlog, UIA implemented new systems for taking unemployment claims. Unemployed workers in Michigan no longer apply for benefits in person at an unemployment office; instead claims are now taken by telephone or through the Internet. A third method allows some of the state's largest employers to file claims on behalf of their workers.

Now, UIA has begun focusing on the SUTA dumping problem, which affects all employers who pay unemployment taxes. Michigan's unemployment tax system is an experience-rated system, which in general terms means that employers who have high numbers of layoffs have higher tax rates. Employers with few or no layoffs have lower tax rates. SUTA dumping negates the experience-rated tax system and dumps the responsibility for those benefits on the rest of the employers who are already paying their fair share of state unemployment taxes.

Employers who participate in SUTA dumping may ultimately be the ones who get dumped as they potentially face penalties that could quadruple what they may have saved.

IMPORTANT NOTICE

Many forms of SUTA dumping are already illegal in Michigan. If you have or think you may have been caught up in someone's "tax avoidance" advice, consider calling UIA's Employer Customer Relations hotline at **1-800-638-3994**. If you voluntarily request an audit determination, you will receive consideration for substantially reduced penalties.